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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*North Korea: Recent Surge In Imports
From The Industrial West*

~~Secret~~

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October 1970

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
October 1970

INTELLIGENCE MEMORANDUM

North Korea: Recent Surge In Imports
From The Industrial West

Introduction

In early 1968, North Korea intensified its negotiations in Japan and Western Europe for large quantities of machinery and equipment needed to bolster its program for industrial-military modernization and to spur its lagging Seven-Year Plan. These negotiations were fruitful. Total imports from the Industrial West* almost tripled in value from a level of about \$30 million per year during 1965-67 to \$85 million in 1969. But more important, imports of machine tools and various other types of machinery and equipment jumped from \$6 million in 1967 to \$66 million in 1969. This memorandum reviews the evidence on North Korea's recent trade with the Industrial West, examines the importance to North Korea of the machinery and equipment imported, and analyzes the possibilities for continuation of the trend.

* *The term Industrial West as used in this memorandum refers to Japan, Western Europe, Australia, and Canada.*

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Strategic Research.

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Recent Trends in Trade

1. North Korea's trade with the Industrial West doubled during 1968-69 (see Table 1). As a consequence, the share of the Industrial West in North Korea's trade rose from about 15% in 1967 to more than 20% in 1969. While North Korean exports to the Industrial West increased significantly, especially in 1968, most of this spurt in trade came from the expansion in imports from West Germany, Japan, and the Netherlands. The rise in exports in 1968 kept the trade roughly in balance, but in 1969 North Korea incurred a trade deficit of more than \$40 million, which was financed by credits, gold sales, and perhaps some drawing down of hard currency holdings.

Table 1

North Korea: Trade
with the Industrial West

	Million US \$					
	Imports			Exports		
	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
Industrial West	28.6	45.4	85.4	33.0	42.1	44.1
Of which:						
Japan	6.7	21.8	25.3	28.1	32.4	30.0
Western Europe	15.4	15.0	60.0	4.9	9.7	13.5
Of which:						
West Germany	3.7	8.4	31.6	0.6	2.3	5.3
France	9.3	4.0	8.8	0.3	0.7	0.1
Netherlands	0.8	0.2	15.5	1.6	2.7	2.2
Australia	6.5	8.6	0.1	--	--	--

Economic Significance of Imports

2. The sharp rise in imports during 1968-69 from the Industrial West was dominated by an increase in imports of machinery and equipment from Western Europe and Japan -- to a level ten times

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that of 1967 (see Table 2). The value of imports of chemicals and manufactured goods (steel products, aluminum, paper, textiles, and tires) in 1968-69 was roughly three times that of 1967; this jump in imports was counterbalanced by the continued fall-off in food imports, especially in wheat flour from France and wheat from Australia.

3. As Table 3 shows, North Korea increased purchases in all major categories of machinery and equipment since 1967. In the nonelectric machinery category, almost all the power generating equipment originated in France, \$2.7 million of which was for six 800-horsepower diesel engines for ships. North Korea has been improving its shipbuilding facilities and recently has constructed a 5,000-ton refrigerator ship which undoubtedly included some of these engines. Although North Korea claims to have built this ship with domestic resources, the country still is dependent on foreign sources for diesel engines. The remaining power equipment imported probably consisted, for the most part, of auxiliary power generating equipment for industrial facilities.

4. The rise in imports of textile equipment in 1969 reflects deliveries under a Japanese-North Korean contract for a 100,000 spindle textile plant valued at almost \$7 million. North Korea has been expanding its textile industry, and this plant, along with the 3,500 industrial sewing machines ordered from Japan for delivery in 1970, will add significantly to the production of textiles and related products. Heating and cooling equipment have risen moderately compared with the other categories; more than one-half of the 1969 imports consisted of equipment for treating materials to withstand extreme temperature ranges.

5. Electronic equipment accounted for most of North Korea's imports of electric machinery throughout 1967-69.* During this period, electronic firms in Japan supplied nearly all of this equipment, [redacted]

[redacted] By modern standards, North Korea's electronic industry is small and backward, but by importing plant and technology for the

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Table 2

North Korea: Commodity Composition
of Imports from the Industrial West

	Thousand US \$		
	<u>1967</u>	<u>1968</u>	<u>1969</u>
Foodstuffs	14,279	8,234	2,079
Crude materials and fuels	306	2,843	283
Chemicals	1,702	5,509	5,098
Manufactured goods	3,241	9,700	9,888
Machinery and equipment	6,298	18,205	65,840
Unidentified	2,774	953	2,252
<i>Total</i>	<i>28,600</i>	<i>45,444</i>	<i>85,440</i>

Table 3

North Korea: Machinery and Equipment
Imports from the Industrial West

	Thousand US \$		
	<u>1967</u>	<u>1968</u>	<u>1969</u>
<i>Total</i>	<i>6,298</i>	<i>18,205</i>	<i>65,840</i>
Nonelectric machinery and equipment	2,006	3,335	10,641
Of which:			
Power generating equipment	1,235	139	3,567
Textile equipment	25	100	1,558
Heating and cooling equipment	630	897	1,313
Electric machinery and equipment	883	5,450	4,607
Of which:			
Electronic equipment	602	1,716	3,459
Transportation equipment	3,187	1,750	15,623
Metalworking machine tools	222	7,670	34,508
Unidentified	--	--	461

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production of integrated circuits and transistors, North Korea has substantially improved its electronics industry. The remaining electronic imports consisted of equipment for marine navigation, communications, and data collection and recording, most of which has both military and industrial uses.



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6. The large imports of transportation equipment in 1969 primarily reflect the delivery of two refrigerated fishing ships from the Netherlands. Contracts for the two ships, valued at more than \$13 million, had been concluded in 1967. They will be paid for over an extended period of at least five years; this is the first substantial credit by a West European firm to North Korea.



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The delivery of two ships in 1969 added significantly to North Korea's fishing fleet because each ship has a capacity of more than 7,000 tons -- the largest refrigerated fishing ships in North Korea. North Korea now operates about 10 refrigerated fish-processing ships. Although the trade data do not provide complete information on the other types of transport equipment imported since 1967, it is known that North Korea also purchased rubberized boats from Japan; some of which probably will be used for infiltration purposes.

7. The most striking increase in imports has been in metalworking machine tools -- from substantially less than \$1 million in 1967 to almost \$8 million in 1968 and to \$35 million in 1969. West Germany supplied more than 90% of the 1969 total, with Japan and Italy shipping the remainder. The USSR -- North Korea's principal Communist supplier of machinery and equipment -- has increased shipments of machine tools in recent years. Although the value of Soviet deliveries of all types of machinery and equipment exceeded that of the Industrial West in 1968 and probably in 1969, the value of machine tool imports from West Germany, Japan, and Italy has far surpassed the value of such imports from the USSR in these years. Machine tools

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imported from the Industrial West have included lathes and grinders for machining crankshafts and camshafts, gear cutting machines, copy milling machines, jig borers, and possibly some tape-controlled machine tools. In general, machine tools from the Industrial West outdistance Soviet machine tools in precision, reliability, and ease of operation.

8. North Korea's own capabilities to produce machine tools are inadequate to support the industrial-military modernization which has been going on during the past few years. The domestic industry produces only the most basic types of machine tools, and thus North Korea must rely on imports for more specialized equipment. The recent surge in imports of machine tools is undoubtedly associated with the North Korean drive to fulfill the industrial goals of the Seven-Year Plan; the plan, originally scheduled to end in 1967, was extended to 1970. Such a push is indicated by the North Korean budget expenditures for investment in the military and civilian machine building industries -- where most machine tools are used -- which were double the 1967 level in each of the past two years. The acquisition of these modern machine tools will give a sizable boost to North Korea's metalworking technology and will improve capabilities to manufacture both military and industrial equipment.

Bulge or Continuing Trend?

9. Preliminary trade returns for 1970 from North Korea's major Free World suppliers suggest that the 1969 import level will not be maintained with the Industrial West this year. Data for the first four months of 1970 indicate that imports from Japan have remained at roughly the same level as in 1969. But first-quarter figures show a sharp cut in imports from West Germany from \$9.6 million in the first three months of 1969 to \$3.1 million in the same period of 1970. First quarter imports from the Netherlands were less than \$50,000.

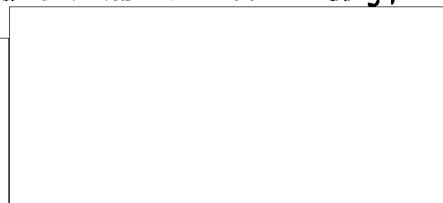
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10. The financing of the trade deficit with the Industrial West also suggests that the 1969 level of imports could not be maintained for long, except on substantial credit.

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The availability of credit also contributed to North Korea's capability to generate the 1969 deficit. The two ships from the Netherlands were financed under credit, and some commercial credit was available. For example, it is understood that in the fall of 1969 the Moscow Norodny Bank agreed to purchase North Korean commercial paper with a two-year maturity whereas it previously had refused to guarantee bills for longer than one year. While the level of gold production and the size of gold reserves in North Korea are not known, these sources of foreign exchange probably are not large.* Likewise, commercial paper with a maturity of two years or less will not help much. Thus North Korea would need substantial credits, similar to that granted by the Netherlands shipbuilding firm, in order to maintain the high level of imports from the Industrial West.

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11. Exports to the Industrial West have risen in recent years and, until 1969, were roughly equal to imports. This trend of steady expansion in North Korea's exports, which consist primarily of iron ore, pig iron, steel products, zinc, and other nonferrous metals, is likely to continue. Thus earnings from exports in 1970 will probably permit the financing of a level of imports above that of 1968, but still well below the high 1969 level.



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12. The spurt in North Korean imports from the Industrial West in 1968-69 was dominated by an increase in purchases of machinery and equipment from Western Europe and Japan -- to a level ten times that of 1967. Metalworking machine tools, mostly from West Germany, comprised one-half of the imports of machinery and equipment in 1968-69. These machine tools provide a sizable boost to North Korea's metalworking technology and improve capabilities to manufacture both military and industrial equipment. Two refrigerated fishing ships costing \$13 million were the most important imports from the Netherlands in 1969, both supplied to North Korea on credit.

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13. The level of machinery and equipment imports from the Industrial West is likely to fall off considerably in 1970, particularly in the categories of metalworking machine tools and transportation equipment. While Japanese trade data for the first four months of 1970 show imports at roughly the same level of last year, imports from West Germany -- the prime supplier of machine tools -- were only one-third the level of 1969 in the first three months of this year. Likewise, the Netherlands will deliver no more than one refrigerated fishing ship this year.

14. The method of financing the huge jump in imports from Western Europe in 1969 also suggests the high level of imports of that year will not be maintained. Exports in 1969 covered only about one-half of the imports from the Industrial West, leaving a trade deficit of more than \$40 million. This deficit was financed by credits for the two Netherlands ships, gold sales, some commercial bills, and perhaps some drawing down of foreign currency holdings. None of these sources seem likely to permit North Korea to finance large trade deficits for long. Nor can North Korea readily achieve a substantial expansion of its earnings from exports to the Industrial West.